



AUSTRALIA

SAR AU Outperform

Price (at 08:06, 18 Jul 2017 GMT) A\$1.25

Valuation A\$ 1.36

- DCF (WACC 5.0%, beta 0.4, ERP 5.0%, RFR 3.3%)

12-month target A\$ 1.40

12-month TSR % +13.6

Volatility Index High

GICS sector Materials

Market cap A\$m 1,013

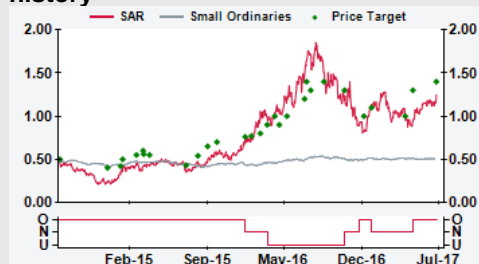
30-day avg turnover A\$m 6.0

Number shares on issue m 810.5

Investment fundamentals

Year end 30 Jun		2016A	2017E	2018E	2019E
Revenue	m	276.5	424.2	516.8	564.6
EBIT	m	38.6	62.3	140.1	195.7
Reported profit	m	25.9	47.8	99.6	141.2
Adjusted profit	m	25.9	47.8	99.6	141.2
Gross cashflow	m	60.8	114.2	153.7	195.3
CFPS	¢	7.5	13.9	18.7	23.8
CFPS growth	%	-2.0	84.9	34.6	27.1
PGCFPS	x	16.6	9.0	6.7	5.3
PGCFPS rel	x	1.31	0.78	0.63	0.56
EPS adj	¢	3.2	5.8	12.1	17.2
EPS adj growth	%	129.0	81.8	108.2	41.8
PER adj	x	39.1	21.5	10.3	7.3
PER rel	x	1.82	1.17	0.66	0.56
Total DPS	¢	0.0	1.0	2.0	3.0
Total div yield	%	0.0	0.8	1.6	2.4
Franking	%	nmf	100	100	100
ROA	%	11.6	14.9	26.8	30.9
ROE	%	10.6	16.7	27.9	30.4
EV/EBITDA	x	13.1	7.6	5.1	3.9
Net debt/equity	%	-11.7	-14.2	-40.5	-58.5
P/BV	x	3.9	3.3	2.6	1.9

SAR AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, July 2017

(all figures in AUD unless noted)

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18 July 2017

Macquarie Securities (Australia) Limited

Saracen Mineral Holdings

Strong June Q and FY18 outlook

Event

- SAR production result in 4QFY17 was strong with the company achieving its long-term goal of a 300kozpa run-rate.

Impact

- Strong June quarter production.** SAR set production records at both Carosue Dam (CDO) and Thunderbox. CDO produced 45.1koz in line with our forecast of 44.9koz and Thunderbox produced 34.8koz marginally below our expected 38.3koz. The strong production result didn't fully translate through to costs with AISC of \$1,127/oz 10% higher than our forecast of \$1,035/oz. SAR flagged an ~\$11m of pre-strip costs for the C Zone pit that were included in the AISC result as a key pressure on costs. We note costs are heading in the right direction with a 25% improvement from the previous quarter.
- Ramp-up year concludes while grade improving.** SAR has now achieved its targeted 300kozpa run-rate concluding a 12-month ramp-up of Thunderbox and a transition to underground mining at Karari and Deep South. Grade across the SAR's mines continues to improve with mined grade for the quarter at 2.5g/t compared to 2.3g/t during the March quarter. Thunderbox saw a strong increase in mined grade over the quarter to 2.2g/t compared to 1.6g/t over the previous quarter. CDO maintained grade decreased slightly but mill throughput compensated. SAR has maintained its FY18 guidance of 300koz at an AISC of \$1,150/oz.
- Karari continues to improve via the drill bit.** Drilling at Karari continues to define a mineralised zone extending to the north that shows a trend of increasing grade and down hole width with depth. Continued extension of this higher grade zone looks to be extending strike lengths of the Karari ore body with depth. This increasing strike could justify the development of a third decline and associated number of mining fronts, potentially increasing mining rates by an additional 50%.

Earnings and target price revision

- Given the potential sale of non-core assets we have increased our D&A estimate for 2H17 lowering our FY17 earnings forecast by 11%. A stronger outlook for FY18 production lifts our FY18 earnings estimate by 22%. Rolling forward our valuation lifts our target price to \$1.40/sh from \$1.30/sh.

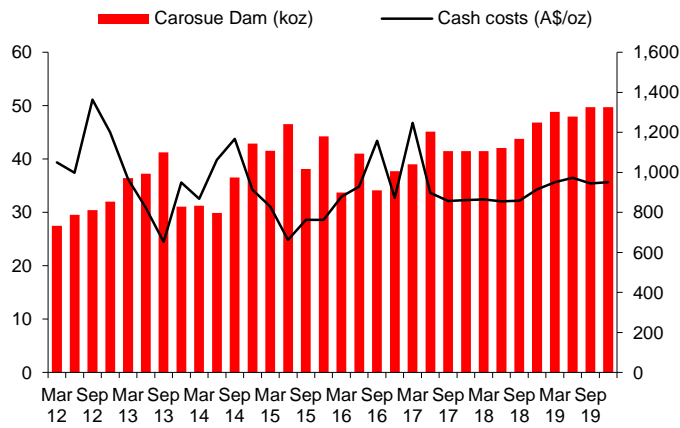
Price catalyst

- 12-month price target: A\$1.40 based on a Blend of 50% 1x NAV and 50% 5x CFPS methodology.
- Catalyst: SAR will continue to drill at Karari and begin a programme at Whirling Dervish both of which could provide positive catalysts. The company will update its five-year plan in December.

Action and recommendation

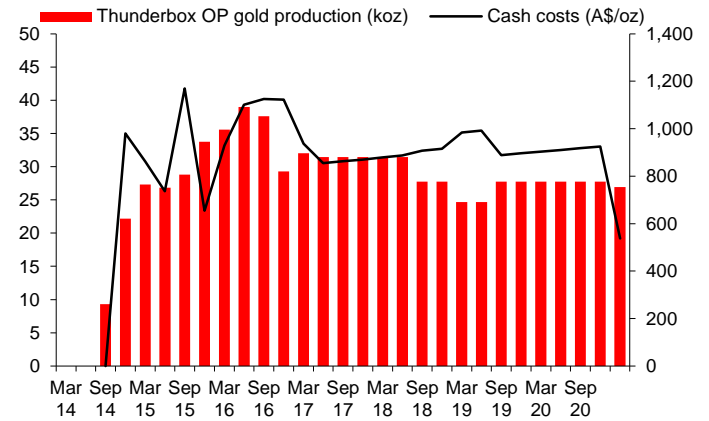
- Maintain Outperform.** Achieving a 300kozpa run-rate has been a long-term goal for SAR. Karari continues to improve the outlook at CDO while Thunderbox should now be past its peak costs. All of this should deliver a stronger earnings outlook for SAR.

Fig 1 Carosue Dam quarterly gold production



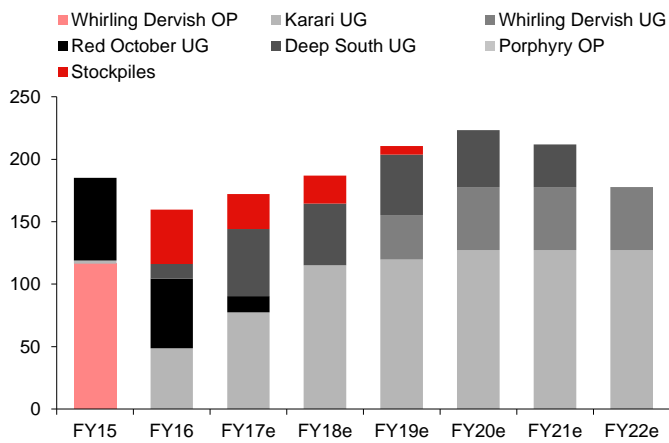
Source: SAR, Macquarie Research, July 2017

Fig 2 Thunderbox quarterly gold production



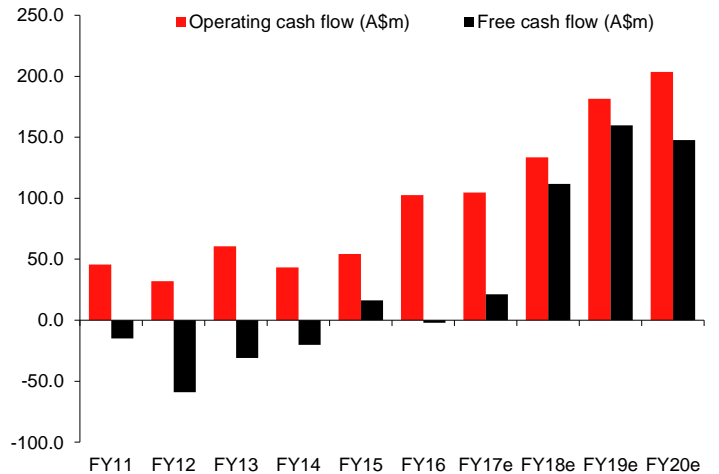
Source: SAR, Macquarie Research, July 2017

Fig 3 Carosue Dam production by mine



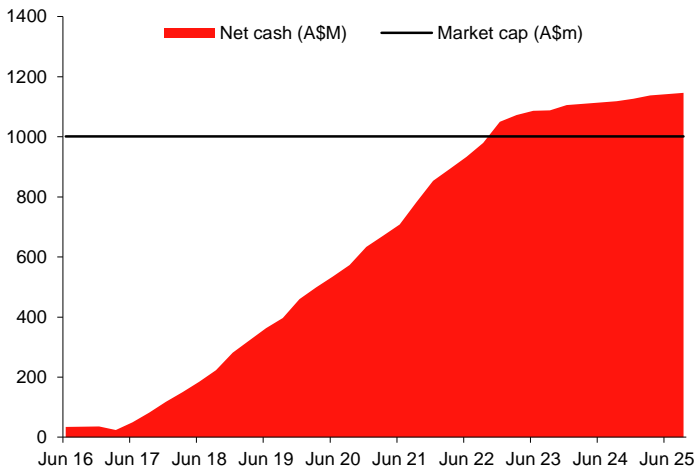
Source: SAR, Macquarie Research, July 2017

Fig 4 SAR cash flow outlook



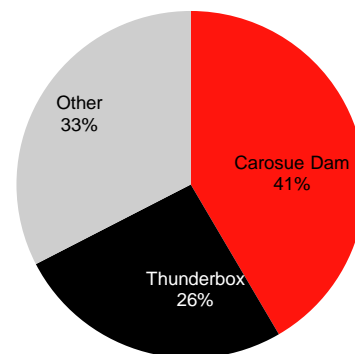
Source: SAR, Macquarie Research, July 2017

Fig 5 SAR net cash vs market capitalisation



Source: SAR, Macquarie Research, July 2017

Fig 6 SAR NPV by project



Source: SAR, Macquarie Research, July 2017

Fig 7 SAR summary model

Saracen Mineral Holdings							
ASX: SAR	Price: (A\$ps)	1.25	Year end: Jun		Rating: Outperform	Up/dn	TSR
	Mkt cap: (A\$m)	1,009	Diluted shares (m)		Target: 1.40	12%	12%
ASSUMPTIONS	FY14	FY15	FY16	FY17e	FY18e	FY19e	FY20e
Exchange Rate	A\$/US\$	0.92	0.84	0.73	0.75	0.74	0.74
Spot Gold	(US\$/oz)	1,295	1,223	1,167	1,258	1,331	1,375
Spot Gold	(A\$/oz)	1,411	1,461	1,600	1,667	1,796	1,858
RATIO ANALYSIS	FY14	FY15	FY16	FY17e	FY18e	FY19e	FY20e
Diluted share capital	m	657.3	797.5	809.1	822.2	822.2	822.2
EPS (diluted and pre sig. items)	A¢	0.9	1.4	3.2	5.8	12.1	17.2
P/E	x	135.9x	89.5x	39.1x	21.5x	10.3x	7.3x
CFPS (Operating)	A¢	6.6	6.8	12.7	15.4	18.1	22.3
P/CF	x	19.0x	18.4x	9.9x	8.1x	6.9x	5.6x
DPS	A¢	0.0	0.0	0.0	1.0	2.0	3.0
Dividend yield	%	0.0%	0.0%	0.0%	0.8%	1.6%	2.4%
Franking Level	%	0%	0%	0%	50%	100%	100%
Book value per share	x	0.35	0.29	0.32	0.38	0.49	0.64
P/Book value	x	3.6x	4.3x	3.9x	3.3x	2.6x	1.9x
R.O.E. (pre sig items)	%	3%	5%	10%	15%	25%	24%
R.O.A. (pre sig items)	%	3%	5%	11%	13%	25%	26%
Interest Cover	x	5.4x	49.0x	177.6x	-647.1x	-65.3x	-32.1x
EBITDA per share	A\$ps	0.06	0.08	0.09	0.16	0.24	0.30
EV/EBITDA	x	23.6x	14.7x	13.5x	7.6x	4.4x	2.8x
FCF Yield	%	-2%	2%	0%	2%	13%	15%
EARNINGS	FY14	FY15	FY16	FY17e	FY18e	FY19e	FY20e
Sales Revenue	A\$m	211	250	277	424	517	595
Other Revenue	A\$m	0	0	0	0	0	0
Total Revenue	A\$m	211	250	277	424	517	595
Operating Costs	A\$m	(159)	(174)	(191)	(283)	(305)	(316)
Operational EBITDA	A\$m	53	76	85	141	204	279
Exploration Expense/Write-offs	A\$m	(0)	(0)	(1)	(1)	(0)	(0)
Corporate & Other Costs	A\$m	(10)	(10)	(12)	(13)	(10)	(11)
EBITDA	A\$m	42	66	72	128	194	268
D&A	A\$m	(32)	(50)	(34)	(65)	(54)	(54)
EBIT	A\$m	10	17	39	62	140	214
Net Interest	A\$m	(2)	(0)	(0)	0	2	6
Profit Before Tax	A\$m	8	16	38	62	142	224
Tax Expense	A\$m	(2)	(5)	(12)	(15)	(43)	(67)
Minorities	A\$m	0	0	0	0	0	0
Adjusted NPAT	A\$m	6	11	26	48	100	157
Significant Items (post tax)	A\$m	(0)	0	0	0	0	0
Reported NPAT	A\$m	6	11	26	48	100	157
CASHFLOW	FY14	FY15	FY16	FY17e	FY18e	FY19e	FY20e
Net Profit	A\$m	6	11	26	48	100	141
Interest/Tax/D&A	A\$m	29	44	40	55	48	48
Working Capital/other	A\$m	9	(1)	36	23	1	(5)
Net Operating Cashflow	A\$m	43	54	102	127	149	204
Capex	A\$m	(53)	(36)	(105)	(111)	(22)	(56)
Investments	A\$m	(11)	(2)	0	0	0	0
Sale of PPE and Other	A\$m	0	0	0	0	0	0
Free cash flow	A\$m	(20)	16	(2)	15	127	148
Dividends Paid	A\$m	0	0	0	0	(8)	(16)
Debt	A\$m	(11)	(14)	(2)	(3)	(1)	(0)
Equity Issuance	A\$m	58	0	0	0	0	0
Other	A\$m	0	0	0	0	0	0
Net Financing Cashflow	A\$m	47	(14)	(2)	(3)	(9)	(25)
Net change in cash	A\$m	27	3	(4)	13	118	123
BALANCE SHEET	FY14	FY15	FY16	FY17e	FY18e	FY19e	FY20e
Cash	A\$m	36	38	34	47	166	311
PP&E & Mine Development	A\$m	193	146	248	297	265	235
Exploration	A\$m	28	38	44	68	74	80
Total Assets	A\$m	313	300	362	474	571	697
Debt	A\$m	14	1	4	3	2	2
Total Liabilities	A\$m	82	71	101	162	169	169
Total Net Assets / Equity	A\$m	231	229	261	311	403	528
Net Debt / (Cash)	A\$m	(22)	(37)	(31)	(44)	(163)	(309)
Gearing (net debt/(nd + equity))	%	(10%)	(19%)	(13%)	(16%)	(68%)	(141%)
Gearing (net debt/equity)	%	(9%)	(16%)	(12%)	(14%)	(40%)	(59%)
ATTRIBUTABLE MINE OUTPUT	FY14	FY15	FY16	FY17e	FY18e	FY19e	FY20e
Gold production (equity)							
Carosue Dam	(koz)	133.5	167.5	157.2	156.0	166.5	187.4
Thunderbox	(koz)	0.0	0.0	31.5	116.8	141.4	126.3
Total	(koz)	133.5	167.5	188.7	272.8	307.9	313.7
Cash costs							
Carosue Dam	(A\$/oz)	864	878	831	1,036	860	926
Thunderbox	(A\$/oz)				838	1,068	881
Cash costs	(A\$/oz)	864	878	693	951	955	908
AISC Cash Costs							
Carosue Dam	(A\$/oz)	1,551	1,156	1,098	1,424	1,022	1,071
Thunderbox	(A\$/oz)				1,276	985	772
AISC Cash Costs	(A\$/oz)	1,551	1,156	1,098	1,360	1,005	985
Operational EBITDA Contribution (pre hedging)							
Carosue Dam	A\$m	72	83	123	78	144	161
Thunderbox	A\$m	0	0	14	94	96	111
OPERATIONAL OUTLOOK							
RESERVES AND RESOURCES (ATTRIBUTABLE)							
Reserves							
Project							
Carosue Dam	Mt	3.8	2.9	346			
Porphyry	g/t	4.9	1.2	181			
Safari Bore	koz	0.0	0.0	0			
Red October		0.0	0.0	0			
Stockpiles		1.1	0.9	33			
Carosue Dam	koz	9.7	1.8	560			
Thunderbox		10.4	1.7	557			
Bannockburn & KOTH		5.4	1.5	305.0			
Thunderbox	koz	15.7	1.7	862			
Total	koz	25.5	1.7	1,422			
Resources							
Project							
Carosue Dam	Mt	28.5	2.1	1,888			
Porphyry	g/t	32.0	1.5	1,541			
Safari Bore	koz	5.7	2.7	496			
Red October		10.1	1.8	573			
Stockpiles		4.6	0.7	102			
Carosue Dam	koz	81.0	1.8	4,600			
Thunderbox		46.3	1.9	2,754			
Bannockburn		18.9	1.7	1,058			
Thunderbox	koz	65.2	1.8	3,812			
Total	koz	146.2	1.8	8,412			
	EV/Reserve (A\$/oz)	689					
	EV/Resource (A\$/oz)	116					
EQUITY DCF VALUATION							
Projects							
Carosue Dam	A\$m	449	0.56	299	0.37		
Thunderbox	A\$ps	280	0.35	244	0.31		
Undeveloped Resources	A\$m	344	0.43	482	0.61		
Unpaid capital	A\$ps	0	0.00	0	0.00		
Forwards	A\$ps	(47)	(0.06)	(42)	(0.05)		
Corporate	A\$ps	(41)	(0.05)	(54)	(0.07)		
Net cash (debt)	A\$ps	96	0.12	30	0.04		
Net Equity Value (@ 5% WACC Real)	A\$m	1,081	1.36	959	1.20		
Price Target (50% 1 x NAV, 50% 5x CFPS)	A\$ps	1.40					
P/NAV	x	0.92x					

Source: SAR, Macquarie Research, July 2017

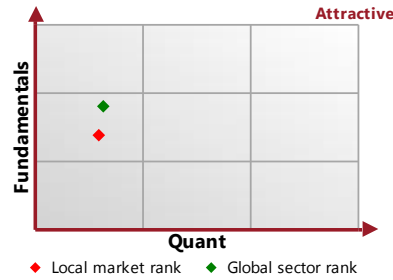
Macquarie Quant View

The quant model currently holds a reasonably negative view on Saracen Mineral Holdings. The strongest style exposure is Growth, indicating this stock has good historic and/or forecast growth. Growth metrics focus on both top and bottom line items. The weakest style exposure is Earnings Momentum, indicating this stock has received earnings downgrades and is not well liked by sell side analysts.

1233/1558

Global rank in Materials

% of BUY recommendations 88% (7/8)
Number of Price Target downgrades 0
Number of Price Target upgrades 1

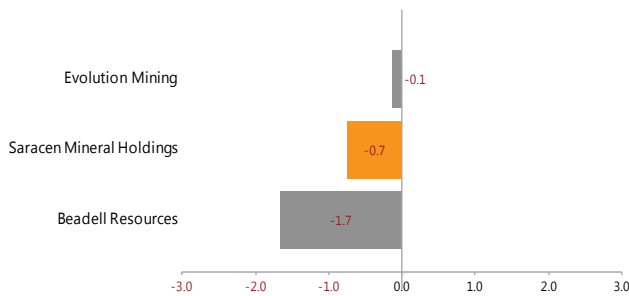


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Australia & NZ) and Global sector (Materials)

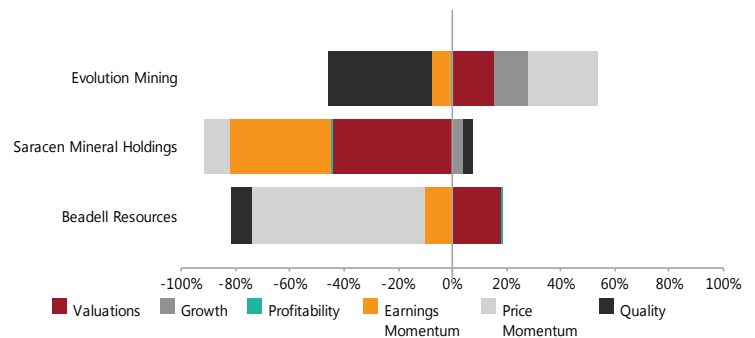
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



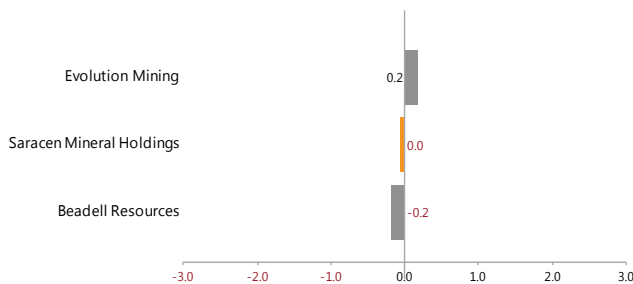
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



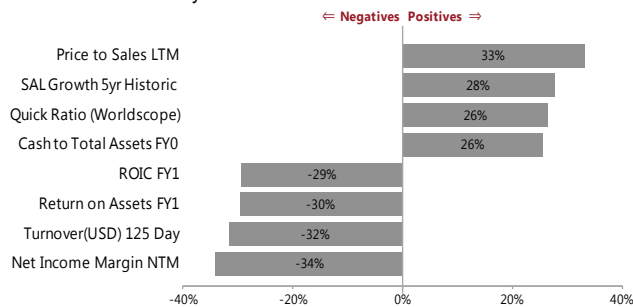
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



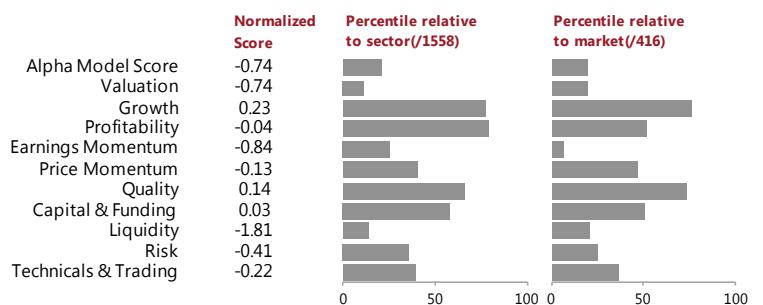
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Important disclosures:**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
 * Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.01%	55.36%	42.05%	46.38%	66.67%	43.60%	(for global coverage by Macquarie, 2.98% of stocks followed are investment banking clients)
Neutral	37.73%	29.86%	42.05%	47.88%	27.91%	40.14%	(for global coverage by Macquarie, 2.33% of stocks followed are investment banking clients)
Underperform	10.26%	14.78%	15.91%	5.74%	5.43%	16.26%	(for global coverage by Macquarie, 1.15% of stocks followed are investment banking clients)

SAR AU vs Small Ordinaries, & rec history

(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, July 2017

12-month target price methodology

SAR AU: A\$1.40 based on a Blend of 50% 1x NAV and 50% 5x CFPS methodology

Company-specific disclosures:

SAR AU: Macquarie and its affiliates collectively and beneficially own or control 1% or more of any class of Saracen Mineral Holdings Ltd's equity securities.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BGB code)	Recommendation	Target Price
11-May-2017	SAR AU	Outperform	A\$1.30
19-Apr-2017	SAR AU	Neutral	A\$1.00
11-Jan-2017	SAR AU	Neutral	A\$1.10
20-Dec-2016	SAR AU	Outperform	A\$1.00
07-Dec-2016	SAR AU	Outperform	A\$1.30
25-Oct-2016	SAR AU	Neutral	A\$1.30
26-Aug-2016	SAR AU	Underperform	A\$1.40
19-Jul-2016	SAR AU	Underperform	A\$1.30
07-Jul-2016	SAR AU	Underperform	A\$1.40
01-Jul-2016	SAR AU	Underperform	A\$1.20
11-May-2016	SAR AU	Underperform	A\$1.00
19-Apr-2016	SAR AU	Underperform	A\$.90
06-Apr-2016	SAR AU	Underperform	A\$1.00
15-Mar-2016	SAR AU	Underperform	A\$.90
24-Feb-2016	SAR AU	Neutral	A\$.80
29-Jan-2016	SAR AU	Neutral	A\$.77
11-Jan-2016	SAR AU	Neutral	A\$.76
21-Oct-2015	SAR AU	Outperform	A\$.70
24-Sep-2015	SAR AU	Outperform	A\$.65
27-Aug-2015	SAR AU	Outperform	A\$.54
24-Jul-2015	SAR AU	Outperform	A\$.43
09-Apr-2015	SAR AU	Outperform	A\$.55

23-Mar-2015	SAR AU	Outperform	A\$.56
21-Mar-2015	SAR AU	Outperform	A\$.60
02-Mar-2015	SAR AU	Outperform	A\$.55
21-Jan-2015	SAR AU	Outperform	A\$.50
15-Jan-2015	SAR AU	Outperform	A\$.42
08-Dec-2014	SAR AU	Outperform	A\$.40
23-Jul-2014	SAR AU	Outperform	A\$.50

Target price risk disclosures:

SAR AU: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification:

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